

**Testimony to the
NYS Division of Budget Brooklyn Town Hall Hearing**

**November 29, 2007
Brooklyn, NY**

Presented by:

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"Faith Capital for Building Communities"

Short summary to be read at the hearing:

Good afternoon. My name is Dave Raynor and I am the Executive Director of the Leviticus 25:23 Alternative Fund, Inc., a Community Development Financial Institution, or CDFI, providing financing for affordable housing and community facilities projects throughout NY State. I also serve on the steering committee of the New York State Coalition of CDFI's.

Before proceeding, I would like to thank the committee for the opportunity to testify in these hearings on an issue that is critical to the economic well-being of communities throughout New York State. I have submitted a longer version of this testimony to the email address provided by the budget department, and will limit my remarks this afternoon to a summary.

In June of this year, Governor Spitzer signed legislation creating a New York State CDFI Fund housed at Empire State Development Corporation. Funding under this new program will support the work of CDFIs, which are financial institutions with a special mission of serving underserved communities and people of modest means. They provide a range of affordable financial services and loans to consumers, homeowners, small and micro businesses, and to community organizations financing affordable housing and community facilities. CDFIs specialize in making the types of loans that banks cannot or will not make, either because they do not have a presence in low-income communities or because borrowers do not conform to conventional underwriting criteria and the loans are considered too small or too "risky."

The New York State Coalition of CDFI's is seeking a \$5 million appropriation for the new State CDFI Fund. In a tight budget year, we understand that new programs may be difficult to fund. But this is a relatively small request, and as the state economy faces rough weather, where are the new initiatives that will help low-income individuals build assets, manage debt, and obtain financing to become productive stakeholders in the economy. This is the work of CDFI's. Certainly in the state's budget for community development there is \$5 million that can be re-allocated from big-ticket projects that benefit big business to the work of CDFI's that facilitate and finance economic development at the grass roots in low-income communities.

Most of the CDFI's receiving funding under this program will use the state dollars as match for a federal grant from the US Treasury Department's CDFI Fund. CDFI's then leverage both grants by borrowing from private sources. One dollar from the state, matched by one dollar from Washington provides equity against which local New York State CDFI's can borrow on average eight additional dollars for investment in projects in low-income neighborhoods across the state. Very realistically, a \$5 million appropriation should result in \$50 million in loans in low-income communities throughout New York.

In summary, we ask that you look for ways to re-allocate existing community development appropriations to accommodate a \$5 million appropriation for the newly authorized New York State Community Development Financial Institutions Fund. In the

current credit crisis facing our economy, and the unfolding predatory lending and foreclosure mess, investing in CDFI's is a smart move that will result in real benefits for low-income communities in New York. Thank you for your consideration.

Additional information not presented at the hearing due to time constraints:

What is a CDFI?

CDFIs are financial institutions with a special mission of serving underserved communities and people of modest means. They provide a range of affordable financial services and loans to consumers, homeowners, small and micro businesses, and to community organizations financing affordable housing and community facilities. CDFIs specialize in making the types of loans that banks cannot or will not make, either because they do not have a presence in low-income communities or because borrowers do not conform to conventional underwriting criteria and the loans are considered too small or too "risky."

CDFIs include community development credit unions (CDCUs), community loan funds, venture capital funds, housing groups, community banks, and others.

CDFIs help low-income individuals build assets, manage debt, and obtain financing to become productive stakeholders in the economy. They serve the people most often neglected by mainstream financial institutions; 70% of CDFI clients are low-income, 76% are minorities, and 58% are women.

CDFIs are mission-driven lenders that fight predatory lending by providing consumer education and affordable financing. They assist individual borrowers in getting out of over-indebtedness, mounting loan principal, and accumulated interest that generally exceed what they can afford. Among the CDFIs that specialize in personal and consumer lending, often the greatest need for loans is to consolidate high-cost debt into lower, fixed-rate loans with realistic repayment options.

CDFIs offer alternative economic development strategies that strengthen low-income and working poor families through asset building initiatives, such as financing affordable housing, community facilities and non-profit enterprises that generate economic opportunity in low-income areas. They invest in building healthy communities by providing affordable loans and secure deposits to small businesses, micro-enterprises, and first-time homebuyers.

NYS Coalition of CDFIs

In 1990 the National Federation of Community Development Credit Unions (Federation from here onwards) helped assemble a group of CDCUs, loan funds, and banks which later became known as the national Coalition of CDFIs. This coalition was instrumental in bringing about the establishment of a federal CDFI Fund, which was signed into law in 1994 by President Bill Clinton. That fund is housed under the U.S. Treasury Department,

and has been instrumental in literally creating an entire industry of community-based responsible lenders dedicated to serving people of modest means.

Following the establishment of the Federal CDFI Fund in 1994, the Federation helped launch the New York State Coalition of CDFIs to support the expansion of its local network of community-based lenders to provide affordable loans and increase economic opportunity in New York's low-income and underserved communities. The mission of the Coalition is to raise permanent capital to expand the capacity of CDFIs to meet the increasing need for flexible and affordable financing in New York State.

There are approximately 700 federally-certified CDFIs in the United States, and more than 110 of them are located in New York State, serving approximately 100,000 consumers and their families. As of year-end 2005, 64 New York CDFIs had provided more than \$1.2 billion in financing to residents of low- and moderate-income communities across the state (See appendix A).

New York State CDFI Fund

Since the mid-90s the New York Coalition of CDFIs has advocated for the creation of a New York State CDFI fund with some success. For nearly 10 years ESDC has been working with CDFIs through operation of a small \$1- to \$1.5-million per year program specifically for lending to women- and minority-owned businesses (WMB). As important as the WMB program is, its use has been restricted to business lending and has not adequately addressed issues of foreclosure, spiraling debt, and high-cost financial services. This is an important program that has encouraged creative lending to women and minorities and it should remain in place, but it needs to be supplemented by a more complete program.

In 2006, the Coalition scored a major breakthrough by bringing together representatives from the New York State Senate, the State Banking Department, and Empire State Development Corporation (ESDC) to craft a workable framework. The legislation was modeled after the federal CDFI Fund and provides for the creation of a CDFI program administered by ESDC, which covers the full-range of activities that CDFIs engage in. These can include vital programs such as financial literacy education, homeownership counseling, and individual development accounts.

That legislation was not reconciled before the legislative session ended in 2006, but identical bills were introduced in 2007 by Senator Farley and Assemblyman Towns. Those bills subsequently passed by the legislature with strong bipartisan support, first in the State Senate on June 6, 2007 and soon after by the State Assembly on June 11, 2007. On July 3, 2007, Governor Elliot Spitzer signed the bills as Chapter 186 of the laws of 2007.

The New York CDFI legislation that was signed into law creates a state CDFI Program administered by ESDC, but appropriations require separate action.

I strongly urge your support for:

- An initial appropriation of **\$5 million** for the New York State CDFI Fund;
- A separate continued appropriation of **\$1.5 million** for ESDC's Women- and Minority-owned Business Lending Program;

Impact of CDFI Investments

The U.S. Treasury Department estimates that each dollar invested in CDFIs leverages \$27 in private capital investment. Based on the figures, an initial investment of \$5 million for the New York State CDFI Fund would bring \$135 million in direct leverage to low-income communities in New York State (see Appendix B)

There are few programs that come close to this type of impact in low-income communities, and this is an important opportunity for New York State to combine micro-level asset-building strategies with the large-scale economic development programs so often seen in the Empire State. This fund, if appropriated will allow CDFIs to greatly expand the scale and impact of their products and services will serve as a national model for community development.

CDFI investments not only supports the wide range of activities CDFIs engage in, but they also help CDFIs leverage additional resources from foundations and the corporate sector, bringing private and public funds together and multiplying the impact to low- and moderate-income communities across the state.

In addition, implementation of a NYS CDFI Fund would complement the federal CDFI program by providing a required non-federal match. Since inception, the federal CDFI Fund has provided New York CDFIs: with over \$81 million in financing capital and more than \$1 million in technical assistance grants. By provided CDFIs in New York with the non-federal match we expected to attract greater investment in New York by the federal CDFI Fund, which has seen its federal appropriations approximate their all-time high.

Understanding that there are always budgetary constraints, if direct funding is not available, I urge you to look at other New York State economic development programs that may be undersubscribed and ask that you reallocate the full \$5 million requested for the New York State CDFI Fund and also maintain the current \$1.5 million set-aside for the Women and Minority Business grant program operated by ESDC. These two programs complement each other and can make an immediate difference improving the New York State economy.

For additional information about the NY Coalition of CDFIs, you can contact Rafael O. Morales, Coalition Coordinator at: rmorales@cdcu.coop or (212) 809-1850, x206. I am also available to answer your questions at draynor@leviticusfund.org or (914) 606-9003 x203.

Thank you for your time and consideration.